



International Agricultural Trade Report

May 1, 1998

Subsidized Chinese Corn Sales Begin- in *Advance* of Summer Grain Harvests

Summary

COFCO (China's State grain trading entity) recently sold nearly 100,000 tons of corn into South Korea, the first substantial corn sale in months. This sale marks COFCO's willingness to export corn at prices definitively below domestic levels for the first time since 1994. Perhaps more important, however, this sale demonstrates Beijing's confidence in the size of the upcoming winter wheat harvest, as new corn sales will help relieve what could materialize into a burdensome total grain stock situation.

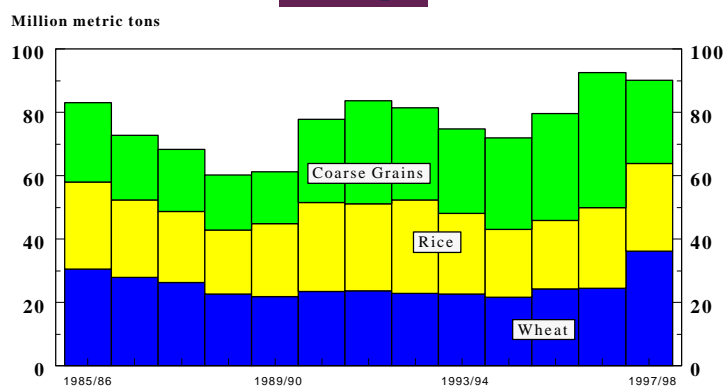
The Gap Between Domestic & International Prices- COFCO Subsidization?

This sale at only \$108 C&F would not have been possible without some sort of subsidy from COFCO, which could easily exploit its monopoly status and use profits from domestic operations to subsidize international sales. However, it is virtually impossible to determine the size of the subsidy. Corn is currently quoted at less than \$100 per ton FOB in Dalian (China's main corn export port, in the northeastern part of the country). This is roughly \$15 below wholesale prices for corn in China, and \$35 below procurement prices. Even so, this does not necessarily mean that the subsidy was between \$15 and \$35, since the exact price paid by the grain bureaus for corn is a mystery. Only a small portion of the crop is purchased at announced procurement price levels. The bulk of grain bureau stockpiles are bought at prices "negotiated" with the farmer, and will differ from prefecture to prefecture.

What Do Corn Sales Have to Do With Winter Wheat Prospects?

A broad-based grain oversupply problem (primarily wheat and rice) is likely the overriding influence on pending decisions to be made by Chinese government officials regarding their corn export position. These storage constraints force Chinese officials to weigh the status of the total domestic grain situation heavier than the supply/demand situation for each grain individually. Thus, the large wheat carryin stocks, coupled with prospects for a good 1998 harvest, not only bode poorly for a return to a strong Chinese wheat import program, but increase the likelihood of corn exports. While traders estimate that as much as 4 million tons of corn could be easily be moved into export, it is expected that China will not sell that volume all at once, but in several tranches.

China: 2nd Highest Total Grain Stocks Since Mid-1980's Pressure Corn Exports, Decrease Wheat Imports



So, What Can We Expect in 1998/99?

In short, more corn exports and continued low wheat imports are likely, as prospects appear high that China's total grain availability in 1998/99 will equal or exceed the current (1997/98) year. Nonetheless, chronic infrastructure problems will continue to create geographic pockets of over/undersupply, with commensurate demands for increased exports or imports. In aggregate, however, Chinese grain demand growth, particularly for feed grains, is expected to slow somewhat. It remains to be seen whether reduced growth in grain utilization will still be strong enough to alleviate the surplus grain situation.

For more information, contact Scott Thompson at 690-4195